

# DIRECTORS' PERSPECTIVES

WHERE THE RSF BOARD EXPLORES CURRENT APPLICATIONS AND IMPLICATIONS OF HENRY GEORGE'S TEACHINGS.

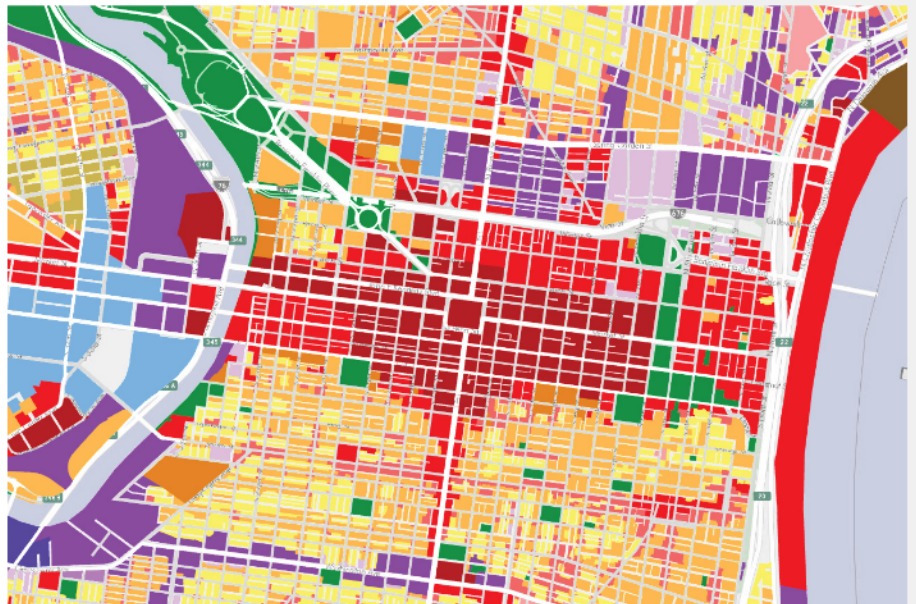
## IMPACTS OF LAND TAXES IN THAILAND

BY BILL BATT

In January of 2019, Thailand instituted a land and building tax. Two thirds of the thirty- three million property parcels had been appraised by mid-year, with the revenue intended to finance local (provincial) governments. Political pressures against the implementation of the tax, were intense in the several years prior to its final approval, and there were several delays. Additionally, there was never a viable plan for taxing land values alone. But the final scheme to tax land values at a higher rate than improvements was indeed a signal victory for a policy I have long advocated. I was a Peace Corps Volunteer in Northern Thailand from 1962 to 1964, and have returned in the past thirty years to visit and speak before Ministry and university audiences.

During my visits and speaking occasions, I had regularly pointed to the advantages of land value taxation, particularly with regard to how this taxation could address the growing wealth disparities among Thailand's 65 million people, and, problems resulting from the extraordinary development sprawl consuming rice paddy land at an alarming pace. In a Bangkok presentation before the Asian Constitutional Law Forum in December of 2017, I demonstrated the extent of this haphazard speculation in Bangkok alone, by using land maps and diagrams of inefficient transportation patterns. Bangkok already had a reputation as one of the most inaccessible capitals in the world.

Now, only nine months after the land and building tax regime was instituted, there is demonstrable evidence of its beneficial impact. This is clear both in land market



Zoning map of Center City Philadelphia, courtesy of phila.gov

patterns and in development initiatives. Thailand's leading English language paper, the Bangkok Post, on September 22, 2019, published an article with the following lead sentence:

*Land prices in the Thai capital are forecast to plateau, or even drop this year. This would be the first time in more than ten years that Bangkok's land prices have leveled off.*

The article continues... (cont'd on pg. 5)

## THE ECONOMICS OF LAND USE CONTROLS

BY NICOLAUS TIDEMAN

Restrictions on and regulation of land use are known as "zoning" in the United States and "planning" in the United Kingdom as well as in many other parts of the world. The legitimate purpose of these controls is to prohibit uses of land that are detrimental to both the public and/or the land itself and to prevent the effects such inappropriate land use can have on people who use the land surrounding a particular property.

However, there are limitations to this kind of land use control. They are:

- The one available form of control is the placement of restrictions on how individual plots of land are used.
- There is no provision that requires land to be used in particular ways.
- There are limited means by which to require people who want to change their land use to pay for the social costs of their actions.
- Bribery and other corrupt practices are a temptation.
- There are incentives to use regulation in order to prevent changes which are in the general public interest but which impose additional costs on the localities. (cont'd on pg. 5)

## HG Trivia

Henry George came in second in a 1886 bid to become Mayor of New York City, garnering more votes than rival candidate Theodore Roosevelt.

## Impacts of Land Taxes in Thailand (cont'd from pg. 3)

on the same page, to report (I have slightly edited the text):

*[C]hanges can be blamed on the general economic slowdown and the Land and Buildings Tax that takes [continued] effect in early 2020. There is a lot of new land coming up for sale as owners gear up for the [further rise in the] tax next year.*

CBRE [a Thailand consulting firm] noted that there is an increasing number of landowners with large tracts of land for sale. They say that owners, affected by the slowdown in the country's economy, are offering up slices of Bangkok land and properties with "negotiable deals or flexible prices."



Worried about the upcoming Land and Buildings Tax, some owners are trying to divest themselves of some of their property assets. Some landowners are also offering leasehold options to minimize new costs from the new tax.

The new Land and Buildings tax will tax vacant land at .3 – .7%, with a rise of .3% every three years. To put that into perspective, for a one-rai vacant plot on Phloenchit Road, Bangkok, the tax rate will be 2 million baht per year. (1 rai = 0.29 acres)

New appraisal prices for land take effect for four years starting from Jan 1, 2020. According to the Treasury Department, the revised appraisals will mean an average increase of 2.5% in Bangkok and 8.3% nationwide.

According to CBRE, with so many plots coming onto the market at more negotiable prices, land prices in Bangkok could drop by 5-10% from last year or at

least remain flat, for the first time since 2009. CBRE reports that the average increase in land prices across Thailand per year has been around 2-3%, and 5-6% for Bangkok. But that has accelerated in recent years with land prices in Bangkok rising more than 10% per year over the past couple of years.

*[Another consulting firm] says that the 'sellers' market is now turning into a 'buyers' market around Bangkok.*

*"We're still seeing a steady surge of buyers, both local and international, but the heat from the last couple of years has cooled, and that's a good thing."*

This is a signal victory for proponents of land value taxation. It adds one more country to the list of places in the Eastern Hemisphere, where land value taxation is now employed. These countries include Australia, Hong Kong, Singapore, and Taiwan. South Korea, which has a strong Georgist network, may soon follow in implementing a land value taxation policy.

## The Economics of Land Use Controls (cont'd from pg. 3)

Land developers are sometimes required to build streets and other infrastructure as a condition of being allowed to build a new subdivision, but this practice does not go so far as to include a regulatory means by which people who want to make changes in land use are required to pay for the costs of the changes that they want to make.

From an economic perspective, an ideal system of land use controls would be one that charged every user of land for the harm their land use caused those who used surrounding land, and that would also give each land user a cash credit for the benefit of their land use to those using surrounding land. It would be easier to create such a system of land use controls in a society in which, as Henry George advocated, all or nearly all of the rental value of land was collected. Such a system could work as follows:

The land assessor in each locality would determine the rental value of each parcel of land; they would also determine the monetary value that the use of each plot of land would add to

or subtract from the rental value of surrounding sites. This determination would be compared to the alternative of fencing off the land and preventing all human use. These assessments would not be detailed inquiries, property by property, but rather generalizations based on statistical studies; the underlying rental values would be estimated on a steady curve whose peaks represented where rents were known to be highest. The local government would then collect a tax equal to 90% of base rental value plus 100% of harmful consequences minus 90% of beneficial consequences.

If the holders of title to land were compensated for the publicly beneficial effects from their land usage, this would tend to raise the rental value of land in an immediate and direct way. If the holders of title to land had to pay for the harmful consequences of their land usage, this would raise rental values indirectly: When someone was charged for a harmful consequence, the corresponding penalty payment would offset the reduction in rental value elsewhere. That the land title holder was willing to pay would evidence that his property was made more valuable by the opportunity to act in a harmful way and pay the penalty than it would have been by regulatory prohibition of this action. When a land title holder refrained from a harmful act because of the ensuing penalty payment, it would demonstrate that such an action would not have been worth the harm it caused; this forbearance would thus keep total land rents higher than they otherwise would have been.

While such adjustments to rental value take appropriate account of the on-going consequences of land value uses, there are effects from changes in land value for which they do not account. A change in land use tends to change the optimal use of surrounding land. This can cause the obsolescence of surrounding buildings more quickly, and therefore a loss in value. It also tends to change the demographic of residents and businesses that would optimally occupy the area, which generates moving costs for current residents and businesses. To compensate for these costs, there should be one-time payments to the building owners, the residents, and the businesses that are renting space in the area.